

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

December 15, 2009

The Capital Projects and Bond Oversight Committee met on Tuesday, December 15, 2009, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: John Hicks, Governor's Office for Policy and Management; Sandy Williams, Kentucky Infrastructure Authority; and Brett Antle, Office of Financial Management.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Representative Rudy made a motion to approve the minutes of the November 17, 2009 meeting. The motion was seconded by Senator Tori and approved by voice vote.

Senator Leeper indicated that because some members needed to leave early, action items would be taken first. He called on John Hicks, Deputy Director, Governor's Office for Policy and Management, to come to the table to present three projects.

Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of a 100 percent federally-funded unbudgeted project for the Cabinet for Health and Family Services (CHFS), Department for Income Support for a diesel-fueled generator. The project scope is \$355,000 and the generator will support delivery of services for child support enforcement and disability determination. The generator will be installed at leased facilities and the cost will be amortized over the five-year term of the lease.

Representative Wayne made a motion to approve the unbudgeted project for CHFS. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of a 100 percent federally-funded unbudgeted project for Kentucky State University (KSU) for Phase 1 renovations of the Old Federal Administration Building. The project

scope is \$1 million and will document and rehabilitate the structure and site, repair architectural elements, and transform the structure and site into a teaching, historical, architectural, and cultural resource for the university. The project is funded by the American Recovery and Reinvestment Act of 2009.

Senator Carroll made a motion to approve the unbudgeted project for KSU. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Lastly, Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of a 100 percent federally-funded unbudgeted project for the Education and Workforce Development Cabinet (EWDC), Office of Employment and Training for an Unemployment Insurance Benefit Payment Control System. The project scope is \$1.7 million, which is funded by the United States Department of Labor. The project will provide an opportunity to better manage the recovery of unemployment insurance benefits through automation of the recovery process.

Representative Wayne made a motion to approve the EWDC unbudgeted project. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Senator Leeper called on Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA), to present several loans. Ms. Williams said that the first loan request was a \$550,000 Fund A loan for the City of Hardinsburg in Breckinridge County for a wastewater improvements project. The loan term is 20 years with an interest rate of one percent.

Senator Leeper asked why the engineering fees for this project were so high. Ms. Williams said that there are additional upfront planning costs that appear in the engineering fees.

The second loan request was a \$975,000 Fund A loan to complement the \$1 million Fund A loan approved by the Committee in August 2009 for the City of Princeton in Caldwell County to allow for additional rehabilitation as a result of the inspection conducted with American Recovery and Reinvestment Act funding. The loan term is 20 years with an interest rate of one percent.

The third loan request was a \$2 million Fund A loan for the City of Warsaw in Gallatin County for renovation and expansion of the Warsaw Wastewater Treatment Plant to increase capacity to accommodate additional wastewater flow from new sewer line extensions. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked how much the flat monthly rate is that the City will charge new users. Ms. Williams said she would have to report the information back to the Committee.

In response to another question from Senator Leeper, Ms. Williams said that the current users' rates will not change.

Representative Westrom asked why the Community Development Block Grant (CDBG) is unfunded. Ms. Williams said the City has applied for the grant funds and is currently working with the CDBG office administrators in order to receive approval. KIA has also been in contact CDBG officials and Warsaw has provided CDBG officials with all required information and is in the approval process.

Representative Westrom asked if there was a backup plan in place in case the grant was not awarded. Ms. Williams responded that the project will not be able to continue without the grant funds.

The fourth loan request was a \$497,409 Fund A loan for the Ohio County Regional Wastewater Commission for the Southern Elementary Extension project. The loan term is 20 years with an interest rate of two percent. Funding for the loan comes from the American Recovery and Reinvestment Act.

The fifth loan request was a \$750,000 Fund A loan for the Mountain Water District (District) in Pike County for the Shelby Sanitary Sewer Project Phase III. The loan term is 20 years with an interest rate of one percent. Funding for the loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked if KIA had already negotiated an agreement with the District in regards to the District paying off the underfunded repair and maintenance fund (\$560,948). Ms. Williams said that KIA is in process of working on the agreement.

In response to additional questions from Senator Leeper, Ms. Williams said the agreement will entail a plan for the District to make up the underfunded repair and maintenance. KIA anticipates that this will not be an issue in regards to the loan repayment.

Senator Leeper asked if replacement reserves are a standard condition of KIA loans. Ms. Williams said the majority of KIA loans have a required replacement reserve but projects do not when the borrower internally funds the reserves. Ms. Williams said KIA does not impose additional replacement reserve requirements for those projects.

In response to a question from Representative Westrom, Ms. Williams said that KIA requires that all borrowers have financial audits as required in the assistance agreement.

Senator Leeper asked if it was unusual for KIA to bring a project to the Committee given negotiations are still underway. Ms. Williams said because this project is funded by the American Recovery and Reinvestment Act and has to meet the February 17, 2010 contract deadline, KIA could not wait until after the negotiations were completed.

In response to a question from Senator Tori, Ms. Williams responded that geographic terrain and the complexity of the project determine the engineering costs of any given project.

Representative Westrom asked what would happen to the project if the District is unable to fund their replacement reserve. Ms. Williams said the negotiation of funding the reserve is a condition of the loan. If it cannot be negotiated, the loan will be rescinded.

Senator Buford asked how long it would take the District to make up the replacement reserve fund. Ms. Williams said the KIA Board of Directors requested that the funds be replaced by December of 2010.

The sixth loan request was a \$625,000 Fund A loan for the Meade County Riverport Authority (Authority) for construction of eight inch diameter gravity sewers, two lift stations, and sanitary sewer force mains. The loan term is 20 years with an interest rate of three percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Leeper asked about the Authority's type of organization. Ms. Williams said the Authority has to be a governmental entity as defined by statute in order to be a borrower of KIA funds.

In response to an additional question from Senator Leeper, Ms. Williams said that the Meade County Fiscal Court guaranteed payment of debt service for this project.

Senator Buford asked where the Authority's revenue comes from, given that they do not have tenants. Ms. Williams said the Authority is currently negotiating a contract with a stevedore and will have revenue next year.

In response to a question from Representative Westrom, Ms. Williams said the county will guarantee the loan and the Authority will own the assets. The City of Brandenburg will be responsible for the operations and maintenance.

The seventh loan request was a \$1.5 million Fund A loan to the Troublesome Creek Environmental Authority in Knott County for construction of a new 100,000 gallon-per-day wastewater treatment plant. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Buford asked if the Authority will be allowed to use coal severance funds allocated by the General Assembly. Ms. Williams responded affirmatively and said the county would be asking the 2010 General Assembly for the funds to be allocated to the Authority.

Representative Westrom indicated that the General Assembly was faced with a 17 percent decrease in coal severance taxes. She asked if the General Assembly would be approving a line-item for future coal severance dollars. Ms. Williams said that Knott County will be asking for their coal severance dollars to be allocated towards repayment of this loan.

Representative Westrom asked what would happen if the legislature were to appropriate these funds for other purposes. Ms. Williams said if there is insufficient coal severance funds to repay the loan, the Authority will have to raise their user fees to pay the debt.

Senator Tori asked, given the low median household income of the area, how users would be able to afford the high rates. Ms. Williams said the rates would be extremely high. She said the reason why KIA selected this project was for the area's extreme environmental needs.

Representative Wayne asked if the KIA Board had concerns about this project. Ms. Williams responded affirmatively. She said KIA is relying on Knott county's verbal commitment that they would request funding for the project through the coal severance dollars. The Authority has assured KIA that they will work towards charging sufficient rates for the project. She indicated that there is a development planned that will add additional customers.

Representative Wayne commented that he was skeptical of the financing for this project given that the General Assembly has not yet allocated the coal severance funds.

Senator Carroll said that even if the General Assembly allocates the coal severance funds in the upcoming budget session, they could only do so for two years and this project requires several years. He said he was interested in seeing an agreement between the Knott County Fiscal Court and the Department for Local Government that they will dedicate the coal severance funds on an annual basis for full payment of the loan. He commented that right now there is no legal obligation for the county to pay the debt.

service for this project. He said he would like to make the approval of the loan under the condition that there will be an agreement of the coal severance funds being allocated towards this project.

Senator Leeper said the Committee would move on to the next loan and come back to the Troublesome Creek Environmental Authority project.

The eighth loan request was a \$3.8 million Fund A loan to the City of Madisonville in Hopkins County to extend sewer service to areas that are currently using straight pipe discharges into abandoned mine shafts as their sewer service. The loan term is 20 years with an interest rate of two percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Representative Damron asked Ms. Williams to provide an updated report and overview of the stimulus funds KIA received. Ms. Williams said that KIA received about \$50 million for the Wastewater Revolving Loan fund and about \$21 million for the Drinking Water Revolving Loan fund in capitalization grants through the Environmental Protection Agency (EPA). There was no state match requirement.

Representative Damron asked what happens if a borrower does not make payments on the debt service of the loan and if KIA had to pay that money back. Ms. Williams said KIA would not have to pay the money back to the federal government.

Representative Damron asked if as opposed to grants KIA was putting the Recovery Act funds into a loan program where KIA is able to loan money back out as the debt service payments for these projects are made. Ms. Williams responded affirmatively. She said KIA was required by the act to give away at least 50 percent of the funds and some sort of additional subsidization. KIA chose to give the funds away as principal forgiveness. For example, a borrower would only have to pay \$500,000 back on a \$1 million loan.

Senator Buford asked what the time frame was on the Recovery Act funds. Ms. Williams said the Act requires all borrowers to have a construction contract date of February 17, 2010.

Senator Buford commented that the General Assembly could load the water districts up with the stimulus funds instead of allocating the coal severance or tobacco funds. Ms. Williams said the projects presented to the Committee this month are the last of the stimulus funds and no more money was available.

Representative Rudy made a motion to approve the seven Fund A loan requests with the exception of Troublesome Creek Environmental Authority. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Senator Leeper asked if there were any further questions regarding the Troublesome Creek Environmental Authority project.

Representative Wayne asked if KIA will lose the money for the Authority if the Committee does not approve it. Ms. Williams responded affirmatively.

Representative Wayne asked if the stimulus money was going to cover up the lack of funds from the Authority to payback the debt service on the loan. Ms. Williams said that if the community cannot repay the loan, the Act states that at least 50 percent of the funds must be given as additional subsidization. She said the 50 percent is not the ceiling and KIA can forgive up to 100 percent of the loan.

Senator Buford commented that the Committee should approve the loan because the stimulus money would otherwise be lost.

Senator Carroll said he had a problem with telling the fiscal court that they did not have to pay back the money and that the Committee should approve the loan with the requirement that an agreement from the Fiscal Court that the debt service payments will be made.

Representative Damron said KIA already has the requirement that the fiscal court request the coal severance funds be used to pay the debt service on this project.

Representative Damron made a motion to approve the Fund A loan for the Troublesome Creek Environmental Authority. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Ms. Williams presented the ninth loan request for the Northern Kentucky Water District in Kenton County for an \$8 million Fund F loan for its four-phased Advanced Treatment project at the Fort Thomas Water Treatment Plant. The loan term is 20 years with an interest rate of two percent.

The tenth loan request was a \$52,000 increase to a previously approved \$520,000 Fund F loan for the Breathitt County Water District in Breathitt County to extend water service to 32 residential customers in the western part of the county. The loan term is 20 years with an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

Senator Tori made a motion to approve the two Fund F loan requests. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Senator Leeper called Brett Antle, Deputy Director, Office of Financial Management, to the table to report several items. Mr. Antle first reported two new bond issues with the School Facilities Construction Commission (SFCC) debt service participation for Eminence Independent in Henry County and Simpson County.

Senator Carroll made a motion to approve the two new SFCC bond issues. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Mr. Antle reported three follow-up reports for previously approved bond issues. The first report was for the State Property and Buildings Commission Revenue Bonds, Project No. 96, in the amount of \$406,082,882. Proceeds from this bond issue will provide permanent financing for projects authorized in HB 267 (2004-06 Budget), HB 380 (2006-08 Budget), HB 1 (2007 Second Special Session – energy bonds), HB 406 (2008-10 Budget), 2009 HB 143, and 2009 Special Session HB 4.

The second follow-up report was for the University of Kentucky General Receipts Bonds Taxable Build America Bonds 2009 Series B, in the amount of \$100,605,000. Proceeds from this bond issue will prove funding for the Expand Patient Care Facility – Hospital Phase II, as authorized by HB 4 (2009 Special Session).

The third follow-up report was for the Kentucky Economic Development Finance Authority (KEDFA) Revenue Bonds (Catholic Health Initiatives) Series 2009 A and 2009 B, in the amount of \$133,269,543. Proceeds from this bond issue will be used to reimburse previous capital expenditures to health facilities projects in Mount Sterling, London, Lexington, Nicholasville, and Bardstown. No Committee action was needed on the follow-up reports.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained two items of correspondence; two letters relating to the KIA Fund A loans to the Department of Parks (General Burnside, Green River, and Pennyryle); and correspondence from the Council on Postsecondary Education regarding the Research Challenge Trust Fund and the Comprehensive University Excellence Trust Fund.

Mr. Mullis noted that members' folders also contained several information items: a memo from Kristi Culpepper, Committee Analyst, regarding Economic Development Programs; an annual capital construction report from the Office of the State Budget Director; and the staff and bond market updates.

Mr. Mullis said there were three new school district bond issues with 100 percent local debt support for Jefferson County, KISTA, and Warren County. All disclosure information has been filed. No Committee action was needed.

Lastly Mr. Mullis reported that the University of Louisville has used available private and federal funds totaling \$1,557,208 to acquire three items of medical equipment. Purchases of unbudgeted equipment must be reported to the Committee; but no action is required.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned 2:00 p.m.